

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AGR-01 L-03 H-01 PA-01 PRS-01
SP-02 USIA-06 AID-05 EB-07 NSC-05 EPG-02 SS-15
STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /090 W
-----140013Z 054397 /64

R 132150Z JUN 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 2806

INFO TREASURY WASHDC

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E0 11652: N/A

TAGS: EFIN, MX

SUBJECT: COMMENT ON BALANCE OF PAYMENTS

REF: MEXICO 9385

1. SUMMARY. MEXICO'S ABRUPT TURNAROUND IN ITS BALANCE OF PAYMENTS SITUATION IS IMPRESSIVE AND DUE ENTIRELY TO GREATER EXPORTS AND REDUCED IMPORTS. BALANCE ON NON-FACTOR SERVICES SLIGHTLY BELOW YEAR-EARLIER FIGURE AND FACTOR PAYMENTS ROSE. CAPITAL REFLOWS WERE NEGLIGIBLE AND CAPITAL FLIGHT PROBABLY CONTINUED.

2. MEXICO'S SUBSTANTIAL REDUCTION IN THE CURRENT ACCOUNT DEFICIT IN THE FIRST QUARTER OF 1977 WAS DUE ENTIRELY TO THE DECLINE IN THE TRADE DEFICIT FROM \$652.2 MILLION IN THE FIRST QUARTER OF 1976 TO \$73.6 MILLION IN THE FIRST QUARTER OF 1977. THIS REDUCTION CAME ABOUT FROM INCREASED EXPORTS AND LOWER IMPORTS. A SIGNIFICANT (\$160 MILLION) OF THE \$278.4 MILLION INCREASE IN EXPORTS IS DUE TO HIGHER COFFEE PRICES AND HIGHER PETROLEUM EXPORTS, BUT MEXICO'S EXPORTS INCREASED IN

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DOLLAR TERMS VIRTUALLY ACROSS THE BOARD. EXPORTERS APPEAR TO BE MAINTAINING THEIR PRICES IN TERMS OF DOLLARS FOR THE MOST PART.

3. THE \$300 MILLION REDUCTION IN IMPORTS FROM 1976 I TO 1977 I REFLECTS THE REDUCTION IN DOMESTIC INDUSTRIAL OUTPUT, A POSSIBLE RUNDOWN OF INVENTORIES AND LOWER

FOOD REQUIREMENTS. AS THERE ARE SIGNS THAT THE DECLINE IN INDUSTRIAL OUTPUT HAS LEVELED OFF AND THAT INVENTORIES HAVE BEEN REDUCED AS FAR AS POSSIBLE, THE LEVEL OF IMPORTS MAY INCREASE ALBEIT SLOWLY.

4. THE NON-FACTOR SERVICES ACCOUNT IS SOMEWHAT DISAPPOINTING. TOURISM RECEIPTS ARE RUNNING SLIGHTLY BELOW YEAR-EARLIER FIGURES. THE NUMBER OF TOURISTS VISITING MEXICO IN 1977 I WAS 761,000, COMPARED TO 790,000 IN 1976 I. HOWEVER, THE NUMBER OF TOURISTS ARRIVING BY AIR, WHO TEND TO SPEND MORE, INCREASED. AS A RESULT, AVERAGE DAILY EXPENDITURES INCREASED FROM \$24.49 IN 1976 I TO \$26.01 IN 1977 I. AVERAGE DAILY DOLLAR EXPENDITURES BY AIR TRAVELERS DECLINED BY FROM \$38.14 IN 1976 I TO \$37.87 IN 1977 I.

5. THERE IS NO NO APPARENT EXPLANATION FOR THE RELATIVELY POOR PERFORMANCE OF "FRONTIER TRANSACTIONS". ONE POSSIBLE EXPLANATION IS THAT PRICES ON THE MEXICAN SIDE DID NOT DECLINE MUCH IN DOLLAR TERMS AND U.S. PRICES DECLINED SLIGHTLY.

6. FACTOR PAYMENTS BY PRIVATE COMPANIES INCREASED ALMOST 20 PERCENT. THIS IS SOMEWHAT LARGER THAN THE INCREASE FROM 1975 I TO 1976 I, AND IS SURPRISING AS DIVIDENDS IN DOLLAR TERMS SHOULD HAVE DECLINED WHEREAS INTEREST COSTS SHOULD NOT HAVE INCREASED THAT MUCH SINCE THERE WAS NOT A SUBSTANTIAL INCREASE IN PRIVATE EXTERNAL DEBT IN 1976 AS BEST WE CAN FIGURE.
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7. THE LARGE INCREASE IN PUBLIC SECTOR INTEREST PAYMENTS IS TO BE EXPECTED.

8. THE RATHER SMALL ERRORS AND OMISSIONS FIGURE, WHICH INCLUDES ALL SHORT-TERM CAPITAL, IS DISAPPOINTING. PRESUMABLY THERE WAS SOME NET NEW SHORT-TERM BORROWING BY THE PUBLIC SECTOR. THUS, IT WOULD APPEAR THAT PRIVATE CAPITAL REFLOWS WERE NEGLIGIBLE AND VERY LIKELY PRIVATE CAPITAL OUTFLOWS EXCEEDED INFLOWS.

9. NET LONG-TERM PUBLIC SECTOR CAPITAL INFLOWS WERE \$333.3 MILLION. PUBLIC SECTOR SHORT-TERM CAPITAL INFLOWS ARE NOT PUBLISHED, BUT WERE PROBABLY AT LEAST \$100 MILLION. THE PUBLIC SECTOR/S EXTERNAL BORROWING PROGRAM IS PROCEEDING SLOWLY. IN PART THIS IS DUE TO THE REORGANIZATION OF THE GOVERNMENT THAT AFFECTED FIRST QUARTER BORROWING ACTIVITIES.

10. THE \$167.5 MILLION INCREASE IN RESERVES IN THE
FIRST QUARTER RESULTS IN END-MARCH RESERVES OF \$1579.2
MILLION. THOMPSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BALANCE OF PAYMENTS, ECONOMIC REPORTS, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Sent Date: 13-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MEXICO09580
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770211-0133
Format: TEL
From: MEXICO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770664/aaaacdna.tel
Line Count: 119
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c02e4f7e-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 MEXICO 9385
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2177110
Secure: OPEN
Status: NATIVE
Subject: COMMENT ON BALANCE OF PAYMENTS
TAGS: EFIN, ETRD, MX
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c02e4f7e-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009